REPORT ON EXAMINATION

AS TO CONDITION OF THE

INTERNATIONAL FIDELITY INSURANCE COMPANY

NEWARK, NEW JERSEY 07102

AS AT DECEMBER 31, 2007

NAIC COMPANY CODE 11592

F I L E D

MAY -7 2008

COMMISSIONER
NJ DEPT OF BANKING & INSURANCE

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State of New Jersey
Department of Banking and Insurance
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Governor

STEVEN M. GOLDMAN
Commissioner

December 22, 2008

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Committee, NAIC
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Regulation Commission, Insurance Division
1120 Paseo de Peralta
Santa Fe, NM 87504-1269

Commissioners:

In accordance with the authority vested in you by the Revised Statutes of New Jersey, an examination has been made of the assets and liabilities, method of conducting business and other affairs of the:

INTERNATIONAL FIDELITY INSURANCE COMPANY
ONE NEWARK CENTER
NEWARK, NEW JERSEY
N.A.I.C. COMPANY CODE 11592

hereinafter referred to in this report as “International”, “IFIC” or the “Company”

SCOPE OF EXAMINATION

This financial condition examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by Section 17:23-22 of the New Jersey Revised Statutes.

The examination was made as at December 31, 2007 and addressed the five year period from December 31, 2002 the date of the last financial condition examination. During this five year period under examination, the Company's assets increased from $ 64,358,208 to $ 170,693,907. liabilities increased from $33,146,668 to $ 84,361,155 and its surplus to policyholders increased from $31,211,541 to $ 86,332,752.

The conduct of the examination was governed by the procedures outlined in the N.A.I.C. Financial Condition Handbook and followed accepted procedures of regulatory authorities and generally accepted insurance Company examination standards. In determining the emphasis to be placed on specific accounts, consideration was given to the Company's system of internal control, the nature and size of each account, its relative importance to solvency, the results of the last financial condition examination and to the Company's IRIS test results.

In the verification of matters as shown in this report, limited test checks were made, some complete and others partial. Consideration was allowed for limiting the verification on certain accounts at a point where they were determined to be substantially correct or the account under review was considered insignificant and not crucial to the Company' solvency.

Accounts requiring standard emphasis were:

Bonds
Common Stocks
Cash and Short Term Investments
Agents' Balances or Uncollected Premiums
Losses
Loss Adjustment Expenses
Other Expenses
Unearned Premiums
Amounts Withheld or Retained by Company for Account of Others

All other balance sheet accounts were determined to require either reduced emphasis and or were determined to require analytical review procedures only. Additional areas reviewed during this examination were as follows:

History and Kind of Business
Territory and Plan of Operation
Reinsurance
Management and Control
Fidelity Bond and Other Insurance Coverage
Policy on Conflict of Interest
Parent, Subsidiaries and Affiliates
Inter-company Agreements
Accounts and Records
Audited Financials

Advertising and Sales Material
Treatment of Policyholders
Continuity of Operations
Statutory Deposits

The examination report, contained herein, will address significant balance sheet accounts and, if necessary, comments on those accounts, which involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

The following is a summary of the Company's responses to the recommendations of the previous examination report:

Territory and Plan of Operation

A review of the contacts with the bonding agencies indicated the responsibilities of the parties as defined in the agreement were not in accordance the current responsibilities. It was recommended that the agreements be updated to clearly define the responsibilities of the parties.

The Company no longer maintains specific agreements with these agencies and by default complied with the above recommendation.

Review of bonding agencies indicates the Warren Agency met the definition of Producer Controlled as defined by N.J.S.A. 17:22D. Review of the agreement with the Warren Agency indicated the agreement does not include language as required by section 4, 6, 8 and 10 of paragraph c of N.J.S.A. 17:22D-3. Filing by the Company met the requirements of N.J.S.A. 17:22D. It is recommended the Company amend the agreement to include the required provisions of N.J.S.A. 17:22D.

The Company no longer maintains an agreement with this agency and by default complied with the above recommendation

The Company has one Managing General Agent as defined by N.J.S.A. 17:22C. Review of the Managing General Agency Agreement indicated it did not contain language as required N.J.S.A. 17:22c- 2, 3, 4 &6 G as well as N.J.S.A. 17:22C-6j. It was recommended the Company amend the agreement to include the required provisions of N.J.S.A. 17: 22C.

The Company amended the agreement to include the required provisions and complied with this recommendation.

HISTORY AND KIND OF BUSINESS

COMPANY HISTORY

The Company was organized and incorporated under the laws of the State of New Jersey on December 27, 1904. The Company merged with Monmouth Insurance Company in 1904.

The Company's authorized capital stock at December 31, 2002 was $1,500,000 and consisted of 1,000,000 with par value of $1.50 per stock. The par value was increased from $1.33 per share in 1993 and was verified by a capital increase examination on October 28, 1994.

The Company is authorized to transact the kind of insurance specified in paragraph "g" of N.J.S.A. 17:17-1.

The main administrative office of the Company is located at One Newark Center, Newark, New Jersey 07102-5207. The registered agent upon whom process may be served is Stephen S Radin Esq. Sills, Cummins and Gross, The Legal Center, One Riverfront Plaza, Newark, New Jersey 07102-5400.

DIVIDENDS TO STOCKHOLDERS

During the five year period under examination, the Company did not pay any dividends to stockholders.

CONFLICT OF INTEREST

The Company has adopted a policy statement on conflicts of interest. Each year all officers and directors of the Company are required to complete a formal conflict of interest questionnaire which requires the individual to disclose any act or affiliation that is likely to conflict with the individual's official duties.

Conflict of interest questionnaires for 2007 were reviewed without exception.

BOARD OF DIRECTORS

The By-laws vest the management and corporate powers of the Company in a Board of Directors consisting of seven members. All directors are elected annually by the stockholders for one year and until their successors shall have been elected and qualified. The majority of the Board shall constitute a quorum.

The following is a listing of the Directors elected and serving at December 31, 2007:

Name and Affiliation	Home or Business Address
Francis Louis Mitterhoff President International Fidelity Insurance Company	Brook Hollow Lane Bernardsville, NJ 07924
Norman Roger Konvitz Secretary, Vice President International Fidelity Insurance Company	1218 West Park Avenue Wayside, NJ 07712
Daniel Jay Mitterhoff Vice President/Vice Chairman of the Board International Fidelity Insurance Company	P.O. Box 42660 Washington, DC 20015
George Foster Brenner Retired	23 Carriage Hill Lane Columbus, NJ 08022

International Fidelity Insurance Company

Ellen Sheffrin Retired International Fidelity Insurance Company	2100 Skycrest Drive # 8 Walnut Creek, CA 94595
Jayne Ellen Kobrin Outside Director & Shareholder International Fidelity Insurance Company	75 Ironwood Court Middletown, NJ 07748
Ellen Sue Kagan Outside Director & Shareholder International Fidelity Insurance Company	59 Pilgrim Road Short Hills, NJ 07078

Review of minutes indicated Board meetings were well attended.

The by-laws provide that the Board of Directors may designate one or more committees, each committee to consist of two or more directors of the Company. At December 31, 2007 the following committees were in place:

AUDIT COMMITTEE

George Brenner	Chairman
Ellen Kagan	
Eileen Sheffrin	

INVESTMENT COMMITTEE

Francis L. Mitterhoff	President/Chairman of the Board/CEO
Norman R. Konvitz	Executive Vice President/Secretary
Lee T. Hartmann, CPA	Senior Vice President/CFO
Robert Minster	Senior Vice President/COO
Charlotte S. Weiss	Treasurer

PRICING COMMITTEE

Francis L. Mitterhoff	President/Chairman of the Board/CEO
Lee T. Hartmann	Senior Vice President/CFO
Robert Minster	Senior Vice President/COO

A review of the minutes of the Board of Directors indicates that transactions and events of the Company are adequately approved and supported. It was also noted that the previous examination report was reviewed by the Directors.

OFFICERS

The bylaws of the Company provide that the officers shall be elected by the Board of Directors. The following is a list of officers of the Company at December 31, 2007:

Francis Louis Mitterhoff	President/Chairman of the Board/CEO
Norman Roger Konvitz	Executive Vice President/Secretary
Robert William Minster	Executive Vice President/COO
Lee T. Hartmann, CPA	Senior Vice President/CFO
Bogda Margaret Blekicki Clarke	Senior Vice President/General Counsel
Jerry Wayne Watson	Senior Vice President
Beatriz Isabel Sampedro	Senior Vice President
Antony Joseph DeMartino, Jr.	Senior Vice President
George Robert James	Senior Vice President
Barbara Dayle Kissner	Senior Vice President/CIO
Daniel Jay Mitterhoff	Vice President/Vice Chairman of the Board
Brian Nathan Nairin	Vice President
Edward Markowich	Vice President
Robert B. Marshall	Vice President
Paul Charles Rogers	Vice President
Thomas Michael McNally	Vice President
Frank John Tanzola, Jr.	Vice President
Charlotte S. Weiss	Treasurer
Dorothy O'Connor	Assistant Vice President
Dexter Vincent	Assistant Vice President
James Restrick	Assistant Vice President
Gary Leuck	Assistant Vice President
Arlene Pfleger	Assistant Vice President
Maria Costa	Assistant Vice President
Maria Branco	Assistant Secretary
Irene Martins	Assistant Secretary
Cristina Oliveira	Assistant Secretary
Ilia Vazquez	Assistant Secretary
Thomas Anderson	Assistant Secretary
Deborah Caterniccho	Assistant Secretary
Brett Brockett	Assistant Secretary
Sharla Sheppard	Assistant Secretary

Mrs. Lee Hartmann resigned from her position and was replaced by Arnold R. Spier subsequent to year end 12-31-07.

AFFILIATED COMPANIES

The Company's organizational structure makes it a member of an insurance holding company system as defined in N.J.S.A. 17:27A-1, and as such it has filed a holding company registration statement with the New Jersey Commissioner of Banking and Insurance in compliance with N.J.S.A. 17:27A-3.

An organization chart follows which illustrates the interrelationships of the Company within the holding company system as of December 31, 2007:

2004 KONVITZ FAMILY TRUST 14.2% OWNER	N. & N. KONVITZ 10.5 % OWNER	F. MITTERHOFF 8.6 % OWNER	C. MITTERHOFF 9.9 % OWNER	J. ALTMAN 11.8 % OWNER	AIA Investments 15.2 % OWNER
INTERNATIONAL FIDELITY INSURANCE COMPANY F.E.I.N. 22-1010450 A NEW JERSEY DOMICILED INSURANCE COMPANY					

Two owners of the Company's common stock totaling 14.0%, also own, in total 66.7% of the following entity

AIA HOLDINGS, INC. F.E.I.N. 45-0508040

Certain officers, directors and stockholders of the Company were also officers, directors and stockholders of Acme Bonding Agency, Inc., Atlas Bonding Agency, Inc., Elberon Agency, Inc., Essex Bonding Agency, Inc., Lehigh Agency, Monmouth Bonding Agency, Inc. and Warren Agency, Inc. In July 2003 these agencies were merged into AIA Holdings, Inc. (AIA). The Company and AIA share common ownership. AIA is a minority stockholder of the Company with a 15.2% ownership over the Company. The stockholders of the Company own 66.7% of AIA.

It was noted the Company inadvertently did not disclose the existence of related party affiliations in their Holding Company System Registration Statement and Schedule Y parts #1 and #2. Specifically, two owners of IFIC's common stock totaling 14% also own 66.7% of AIA, Holdings, Inc.'s common stock, which owns 79.70% of the common stock of The Chestnut Group,. Inc., which owns 100% of the Allegheny Casualty Company stock.

It is recommended that the Company disclose these affiliations in their Insurance Holding Company System Annual Registration Statement filing in compliance with N.J.S.A. 17:27A-3 and the Annual Statement Schedule Y - Part 1 and 2.

Inter-Company Agreements

IFIC has entered into a managing general agency agreement with AIA Holdings, Inc. effective November 27, 2007 to process and manage the IFIC's bail premium. The term of the agreement between the Company and AIA Holdings, Inc. is for a five year period commencing immediately on the effective date of the agreement. The agreement automatically renews thereafter for successive five-year periods unless either party notifies the other in writing within 270 days prior to the expiration of the term or any renewal period of the intention not to renew. The Company pays AIA Holdings, Inc. a monthly fee calculated based on a per bond fee of $50 multiplied by the number of bonds processed as determined by AIA Holdings Inc. but subject to an audit by the Company. The Company remits all fees to AIA on a monthly basis and within ten days after receipt of the Monthly Activity Report, which AIA is obligated to provide.

If the Company terminates the agreement with AIA prior to the expiration of the term of the agreement, the Company stipulates and agrees to pay AIA an amount to be calculated based on the present value of the loss of revenue for the remaining period of the agreement. The two parties are in agreement that sufficient consideration exists to support a liquidated damages provision and establish a minimum payment of $5,000,000 in computing these damages.

Similarly, if AIA terminates the agreement with IFIC prior to the expiration of the term of the agreement or processes bonds for any other party, without consent of the Company, AIA will pay the Company an amount to be calculated based on the present value of the loss of revenue for the remaining period of the agreement, but not less than $5,000,000 all due and payable upon the initiation of such acts.

The Company leases office space from a third party and further subleased a portion of the office space to AIA Holdings, Inc. during the first ten months of 2007. The Company ended its sublease agreement with AIA in October of 2007. IFIC received sublease income of $151,000 during this period.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

IFIC is covered by a fidelity bond insuring forgery or alteration, securities and computer system for a single loss limit of $1,000,000 subject to a $5,000 deductible. This fidelity coverage is deemed adequate to satisfy the minimum amounts of fidelity insurance coverage as suggested by the National Association of Insurance Commissioners (NAIC) exposure index.

The Company also maintains additional insurance coverage's for the protection of its assets as noted in the various policies effective at December 31, 2007. The following outline shows the types and amounts of coverage that were in force at December 31, 2007:

Type of Coverage	Amount of Limits
Financial Institution Bond	$1,000,000 (fidelity) $1,000,000 (forgery or alteration) $1,000,000 (securities) $1,000,000 (computer system) $ 5,000 (single loss deductible)
Workers' Compensation and Employers' Liability Insurance	$1,000,000 (each accident) $1,000,000 (disease - policy limit) $1,000,000 (disease - each employee)
General Liability	$2,000,000 (general aggregate) $1,000,000 (products & completed operations - aggregate) $1,000,000 (personal & advertising

	injury)
	$ 10,000 (medical expense -any one person)
	$1,000,000 (damage to rented premises per occurrence)
Automobile Liability	$1,000,000 (each accident) $ 250 (deductible)
Employee Benefits Liability	$ 250,000 (each claim) $ 500,000 (aggregate) $ 1,000 (deductible)
Employment Practices Liability	$3,000,000 (each policy year/each loss) $ 50,000 (deductible)
Directors and Officers Liability	$5,000,000 (each policy year) $ 75,000 (retention - each loss)
Umbrella Liability	$10,000,000 (general aggregate) $10,000,000 (products & completed operations - aggregate) $10,000,000 (bodily injury by disease) $10,000,000 (each occurrence)
Business Property Liability	Provides coverage for contents for all the Company's leased space and liability
Certified Acts of Terrorism Coverage	Any covered losses caused by "Certified Acts of Terrorism" will be partially Reimbursed by the United States Under a formula established by federal law.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company offers the following benefits to their employees:

Group Health Benefits (Medical, Dental, Prescription)
Group Life Insurance
Short and Long Term Disability Insurance
401k Plan
Flexible Medical Spending Accounts

In addition, the Company provides for senior management, a non qualified not vested pension plan. The Plan provides benefits at retirement or upon the death of the employee.

STATUTORY DEPOSITS

The following is a list of the statutory deposits summarized by state as of December 31, 2007:

State	Statement Value	Market Value
Arkansas	$ 169,433	$ 172,125
Delaware	10,000	10,000
Florida	596,559	622,937
Georgia	34,747	36,313
Indiana	75,000	75,000
Louisiana	80,000	80,000
Massachusetts	60,071	60,817
Missouri	10,000	10,000
New Hampshire	809,635	807,600
New Jersey	1,544,826	1,569,375
North Carolina	1,372,760	1,381,868
Oklahoma	2,767,327	2,780,513
Oregon	272,682	274,349
Pennsylvania	225,000	225,000
South Carolina	254,149	258,188
Tennessee	175,000	175,000
Texas	6,935,000	6,935,000
Virginia	214,139	215,950
Other – Bail	4,882,461	4,729,581
Sub Total - Deposits For the Benefit of All Policyholders	1,544,826	1,569,375
Sub Total - All Other Special Deposits	18,943,963	18,850,241
Total	$ 20,488,789	$ 20,419,616

INSURANCE AND INSURANCE RELATED PRODUCTS

Policy Forms and Underwriting Practices

The Company utilizes standard policy forms designed by the Surety Association of America for most of its construction bonds. Construction bonds written for government and municipal projects require certain provisions making it necessary for the Company to develop policies, which meet such requirements.

Selected agents are authorized, through powers of attorney, to bind the Company for pre-authorized limits. A review of the Company's detailed Underwriting Manual formally documents the specific policies and procedures that must be followed and adhered to during the various phases of the underwriting process.

Territory and Plan of Operation

The Company is currently authorized to write surety business in the District of Columbia, the territory of Puerto Rico and all of the United States. In addition, the United States Treasury Department licenses the Company. The Company provides a wide range of surety bonds, including contract and performance bonds for the construction industry, license and permit bonds, guaranteeing the performance of small and medium size businesses and bail and immigration bonds.

Construction Contract Surety is the largest segment of the surety industry. In this line, IFIC extends unsecured surety credit to many different types of contractors, including generals, trades, specialties and heavy equipment. Through long-term relationships with contractors they are able to understand their businesses as well as be responsive to all of their surety needs.

IFIC writes many types of commercial obligations, including license & permit, court & probate, guarantees of financial performance and non-construction contract. Most of these obligations are needed due to statutes or government regulations. IFIC writes commercial bonds on a transactional basis (single bond) or as part of a program.

IFIC treats subdivision as a separate line of surety because of its uniqueness and have been writing subdivision for a long time. In fact, since the 1960's, IFIC has been one of the leading writers of subdivision in the New York City – New Jersey metropolitan area. Over the last several years, their subdivision line has expanded across the USA. Today IFIC writes about the same amount of subdivision out of their west coast regional offices as from their headquarters. IFIC has also grown as a market providing subdivision capacity for commercial developers as well as large regional and national home builders to assist them in rounding out a portion of their large surety program needs.

The Company's surety business is marketed through independent agencies in various states on a contract basis. Selected agencies are provided powers of attorney to write bonds with pre authorized limits.

The Company has entered into managing general agency agreement whereby AIA Holdings produces bail bond business on behalf of the Company. Additionally, IFIC also offers Custom bonds exclusively through their strategic partner, International Bond & Marine Brokerage, Ltd.

The Company has marketing and underwriting offices in the following locations:

Atlanta, Georgia
Baltimore, Maryland
Birmingham, Alabama
Boston, Massachusetts
Buffalo, New York
Charlotte, North Carolina
Chicago, Illinois
Columbus, Ohio
Dallas, Texas
Denver, Colorado
Houston, Texas

Little Rock Arkansas
Los Angelis, California
Newark, New Jersey, Headquarters
New York, New York
Orlando, Florida
Philadelphia, Pennsylvania
San Diego, California
Syracuse, New York
Tampa, Florida
Walnut Creek, California

Advertising and Sales Material

A review of the Company's web-site and various other forms of advertisements, on a test check basis, determined that IFIC's advertisements are in compliance with N.J.S.A. 17:18-10.

Treatment of Policyholders

A review of the Company's complaint log indicated that the Company maintains its complaint log in accordance with N.J.S.A. 17:29B-4(10).

REINSURANCE AND RETENTION

The Company has reinsurance protection for their surety business as follows:

Surety Quota Share/Surplus Share

Bond Amount	Company Retention	Ceded to Reinsurers
$0 - $50,000	100%	0%
$50,001 - $100,000	95%	5%
$100,001 - $4,000,000	75%	25%
$4,000,001 - $7,000,000	45%	55%
$7,000,001 - $15,000,000	35%	65% ($9,750,000) Maximum cession
$15,000,001 and greater		Submit for Special Acceptance

In addition to the above schedule retentions and cessions the Company’s agreement also maintains the following stipulations.

Warranties:
A. It is warranted that the following will be submitted to the Reinsurer for written special acceptance before being eligible for cession to this agreement:

1. Any single Bond(s) with penalties greater than $15,000,000as well as with any work program (bonded and unbonded) with a per principal limit in excess of $40,000,000.

2. Fidelity Bonds with policy limits in excess of $1,000,000.

B. It is warranted that single Bonds with penalties greater than $8,000,000 but not exceeding $12,000,000 and aggregate bonded and unbonded work programs per principal up to $25,000,000 will be subject to the approval of either Robert Minster or the Senior Vive President, Contract Surety before being eligible for cession to this agreement.

C. It is further warranted that single Bonds with penalties greater than $12,000,000 but not exceeding $15,000,000 and aggregate bonded and unbonded work programs per principal greater than $25,000,000 but not exceeding $40,000,000 will be subject to the approval of Robert Minster before being eligible for cession to this agreement.

CONTINUITY OF OPERATIONS

IFIC maintains a Business resumption and disaster recovery plan to provide for an orderly return to normal business operations in the event that a significant disruption occurs to normal business operations, its computer and telecommunication resources. IFIC’s plans include the relocation of personnel to a pre-established external site for a timely recreation of critical areas of operation, electronic and manual processes as well as access by it's various branch offices. The disaster recovery plan is tested and the test results and or problems encountered are reviewed and used to update or revise the current procedures and plans where necessary, The Disaster Recovery Plan is considered an ongoing process of planning, developing, testing and implementing emergency recovery procedures and processes to ensure efficient and effective resumption of vital business functions.

Backup procedures for IFIC.'s system are controlled by a daily backup process, which checks for new libraries on the system and asks the operator to classify in which group they belong. These groups are then saved in one of four frequencies. The frequency also determines how many sets of tapes are saved before the tapes are reissued.

The Company maintains, as part of its By-laws, a provision for the succession of officers.

ACCOUNTS AND RECORDS

The Company’s general and subsidiary ledgers are maintained at the main administrative office at One Newark Center, Newark, New Jersey. The Company uses an AS 400 based ledger system with monthly postings to subsidiary systems.

The claims are processed through two systems- A/S 400 and Microsoft Foxpro. The accounting data is processed through the A/S 400 and reserves are established in the Microsoft Foxpro system. All claims are assigned to in house counsel.

Premium, cash receipts and claim records are captured daily with the bulk of the premium receipts received monthly. These are reconciled to manual and computer control totals monthly. Cash disbursements are approved by an officer prior to payment; all checks are hand signed by the President. Cash disbursements are reconciled monthly to computer generated reports and bank statements by a separate department.

AUDITING AND INTERNAL CONTROL

Pursuant to N.J.A.C. 11:2-26.4 an annual audit is performed by an independent certified public accounting firm and an audited CPA report was filed with the New Jersey Commissioner of Banking and Insurance.

The Company performs internal audits on underwriting on regional offices on a periodic basis or as necessary.

FINANCIAL STATEMENTS

Exhibit A Comparative Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2002 And December 31, 2007

Exhibit B Underwriting and Investment Exhibit Income for the Five Years Ending December 31. 2007

Exhibit C Capital and Surplus Account for the Five Year Period Ending December 31, 2007

EXHIBIT-A

COMPARATIVE STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS AT

DECEMBER 31, 2002 AND DECEMBER 31, 2007

Assets	Previous Examination	Current Examination	Note Number
Bonds	$32,310,136	$88,913,221	
Stocks	7,376,705	18,170,832	
Mortgage Loans on Real Estate	2,207,593	1,111,500	
Real Estate	32,000	0	
Cash and Short-Term Investments	17,149,660	50,492,418	
Receivable for Securities	180,905	0	
Cash Value of Life Insurance	310,422	2,245,354	
Investment Income Due and Accrued	737,126	1,253,680	
Uncollected Premiums and Agents' Balances In Course of Collection	1,395,808	4,488,967	
Reinsurance Recoverable On Loss and Loss Adjustment Expense Payments	1,738,499	631,946	
Net Deferred Tax Asset	750,000	3,250,000	
Electronic Data Processing Equipment	169,354	135,990	
Total Assets	$64,358,208	$170,693,908	
Liabilities, Surplus and Other Funds			
Losses	$10,163,690	$15,493,530	#1
Loss Adjustment Expenses	$4,184,041	$4,242,428	
Contingent Commissions	$375,658	$116,728	
Other Expenses	359,831	4,960,927	
Taxes, Licenses and Fees	781,587	1,252,929	
Federal and Foreign Income Taxes	249,000	645,000	
Unearned Premiums	13,469,318	29,522,449	
Ceded Reinsurance Premiums Payable	2,411,149	1,931,511	
Funds Held Under Reinsurance Treaties	4,011	5,068	
Amounts Withheld or Retained by Company for Account of Others	189,593	26,183,176	
Provision for Reinsurance	956,740	7,409	
Liability for Uncashed Checks	2,050	0	
Total Liabilities	$33,146,668	$84,361,155	
Common Capital Stock	$1,500,000	$1,500,000	
Surplus Notes	0	16,000,000	
Gross Paid In and Contributed Surplus	374,600	374,600	
Unassigned Funds	29,336,941	68,458,153	
Surplus as Regards Policyholders	$31,211,541	$86,332,753	#2
Totals	$64,358,209	$170,693,908	

EXHIBIT- B

UNDERWRITING AND INVESTMENT EXHIBIT FOR THE FIVE YEARS
ENDING DECEMBER 31, 2007

	12/31/2003	12/31/2004	12/31/2005	12/31/2006	12/31/2007
UNDERWRITING INCOME					
Premiums Earned	$57,156,751	$60,685,133	$70,836,319	$78,417,251	$89,206,413
Deductions:					
Losses Incurred	$9,871,963	$12,235,752	$12,304,718	$7,090,381	$5,067,942
Loss Expenses Incurred	4,109,442	1,927,047	3,825,158	3,915,664	3,292,739
Other Underwriting Expenses Incurred	41,729,822	44,751,992	48,928,628	56,319,733	63,468,878
Total Underwriting Deductions	$55,711,227	$58,914,791	$65,058,504	$67,325,778	$71,829,559
Net Underwriting Gain or (Loss)	$1,445,524	$1,770,342	$5,777,815	$11,091,473	$17,376,854
INVESTMENT INCOME					
Net Investment Income Earned	$2,259,900	$2,391,496	$2,622,173	$2,703,181	$3,495,368
Net Realized Capital Gains or (Losses)	541,032	(132,055)	352,906	1,331,987	105,709
Net Investment Gain or (Loss)	2,800,932	2,259,441	2,975,079	4,035,168	3,601,077
OTHER INCOME					
Net Gain or Loss From Agents' Balances Charged Off	(28,018)	0	(80,457)	(153)	4,969
Miscellaneous Income	484	274	4,502	1,199	7,155
Total Other Income	(27,534)	274	(75,955)	1,046	12,124
Net Income Before Dividends to Policyholders, Federal and Foreign Income Taxes	4,218,922	4,030,057	8,676,939	15,127,687	20,990,055
Dividends to Policyholders	183,870	264,927	79,712	109,862	52,070
Net Income after Dividends to Policyholders, but before Federal and Foreign Income Taxes	4,035,052	3,765,130	8,597,227	15,017,825	20,937,985
Federal and Foreign Income Taxes Incurred	938,535	1,556,717	2,956,382	4,528,734	7,534,881
NET INCOME	3,096,517	2,208,413	5,640,845	10,489,091	13,403,104

EXHIBIT-C

CAPITAL AND SURPLUS ACCOUNT FOR THE FIVE YEAR PERIOD
ENDING DECEMBER 31, 2007

	2003	2004	2005	2006	2007
OTHER SURPLUS GAINS OR (-) LOSSES					
Net Income	$3,096,517	$2,208,413	$5,640,845	$10,489,091	$13,403,104
Change in Net Unrealized Capital Gains or (Losses)	1,912,098	610,394	(493,159)	(319,162)	168,971
Change in Net Deferred Income Tax	550,000	800,000	400,000	0	750,000
Change in Non-Admitted Assets	78,153	(51,968)	(241,439)	(333,620)	(1,231,569)
Change in Provision For Reinsurance	750,903	193,103	(262)	10,175	(4,588)
Aggregate Write-Ins for Gains & Losses in Surplus	0	735,213	0	0	0
Change in Surplus Notes	6,000,000	0	10,000,000	0	0
Change in Surplus as Regards Policyholders	$12,387,671	$4,495,155	$15,305,985	$9,846,484	$13,085,918
Surplus as Regards Policyholders: Prior Year	31,211,540	43,599,211	48,094,366	63,400,351	73,246,835
Surplus as Regards Policyholders: December 31, Current Year	$43,599,211	$48,094,366	$63,400,351	$73,246,835	$86,332,753

NOTE 1: LOSSES

The loss reserve as reported by the Company at December 31, 2007 was $15,493,530. A review of this reserve by an actuary with the New Jersey Department of Banking and Insurance indicated the amount established by the Company was reasonable.

Data supplied to the actuaries was reconciled to the Company's annual statement and other supporting records without exception. Samples of outstanding reserves at December 31, 2007 as well as loss and loss adjustment expense payments made during 2007 were tested to individual claim files without material exception.

NOTE 2: SURPLUS AS REGARDS POLICYHOLDERS

The Company's Surplus as Regards Policyholders at December 31, 2007 was 86,332,752 and was comprised of the following:

Common Capital Stock	$ 1,500,000
Surplus Notes	16,000,000
Gross Paid in and Contributed Surplus	374,600
Unassigned Funds	68,458,153
Surplus as Regards Policyholders	$86,332,752

SUMMARY OF RECOMMENDATIONS

AFFILIATED COMPANIES Page #7

It was noted the Company inadvertently did not disclose the existence of related party affiliations in their Holding Company System Registration Statement and Schedule Y parts #1 and #2. Specifically, two owners of IFIC's common stock totaling 14% also own 66.7% of AIA, Holdings, Inc.'s common stock, which owns 79.70% of the common stock of The Chestnut Group,. Inc., which owns 100% of the Allegheny Casualty Company stock.

It is recommended that the Company disclose these affiliations in their Insurance Holding Company System Annual registration Statement filing in compliance with N.J.S.A. 17:27A-3. and the Annual Statement Schedule Y - Part 1 and 2.

CONCLUSION

A regular statutory condition examination was conducted by the undersigned with the assistance of fellow examiners of the New Jersey Department of Banking and Insurance examination staff.

The examination and audit was conducted at the Company's office in Newark, New Jersey. The courteous assistance and cooperation of the Company's officers and employees is acknowledged.

Respectfully Submitted,

/S/
Joseph Samsel, CFE
Supervising Insurance Examiner
INTERNATIONAL FIDELITY INSURANCE COMPANY

I, Joseph Samsel, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2007 to the best of my information, knowledge and belief.

Respectfully Submitted,

/S/

Joseph Samsel CFE
Examiner-In-Charge
New Jersey Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me, Thomas B. Walker,
on this 23rd day of February, 2009
.

/S/

Notary Public of New Jersey

My commission expires:
September 29, 2013